

METROPOLITAN WATER DISTRICT OF PROVO

FINANCIAL STATEMENTS

JUNE 30, 2005

METROPOLITAN WATER DISTRICT OF PROVO
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CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

Chairman and Executive Council
Metropolitan Water District of Provo
Provo, UT 84601

July 26, 2005

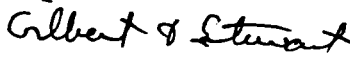
We have audited the accompanying basic financial statements of the business-type activities, which collectively comprise the financial statements of Metropolitan Water District of Provo as of June 30, 2005, and for the year then ended as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Metropolitan Water District of Provo as of June 30, 2005 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2005, on our consideration of Metropolitan Water District of Provo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


GILBERT & STEWART
Certified Public Accountants

Management's Discussion and Analysis

Within this section of the Metropolitan Water District of Provo (District) annual financial statement, the District's management provides a narrative discussion and analysis of its financial activities for the fiscal year ending June 30, 2005. It also encourages the reader to consider the statements, found herein, in addition to the comments made here.

Overview of the Financial Statements

The financial statements herein are three in number.

The first is a Statement of Net Assets that presents information on all of the Districts assets and liabilities, with the difference reported as "Total Net Assets." The total net assets when viewed on time continuum will track the District's financial position (i.e. increasing or declining in value).

The second statement is Revenues, Expenses and Changes in Net Assets. This statement presents information regarding the change in the Districts net assets during the year. The District uses the accrual basis of accounting in which revenues and expenditures are recognized when earned and expended. Thus, revenues and expenditures are reported in these statements for items that will affect future cash flows.

The third statement is Cash Flows. This statement presents the activities of the District on a cash-received and cash-paid basis. It shows how cash was spent and reconciles the change in the District's cash accounts during the year. The information presented therein requires no explanation and thus is omitted from the analysis.

Financial Analysis

The District has not exercised the taxing authority granted by the Utah Code for an extended period of time. It is currently operating with revenues gained from water sales and interest from investments. Therefore the District conducts its financial activities from a single enterprise fund.

Revenues

The District has one basic source of operating revenue, Water sales to Provo City and one source of non-operating, interest from the investment of net assets. Both of these revenue sources have been affected negatively for the past two to five years as follows.

The current contract between the District and Provo City fixes the price of water sold to the City at \$25.00 per AF and requires the City to only pay for the water made available to it by the District. For the past two years, as a result of the draught, the Provo River has been at 75% and 50% which significantly reduced revenue.

The District invests its net assets in the Public Treasurers Investment Fund (PTIF). As a result of the depressed economy, the interest from these invested funds has been low. The interest rate has

dropped from over 6 % in 2000 to under 2% at the beginning of the current year and a little over 3% currently. This reduced interest rate has also significantly impacted the District's revenue.

The following table summarizes information presented in the financial statements over the last two years.

Statement of Net Assets

Assets	2004-2005	2003-2004	Change
Current Assets			
Cash and Cash Equivalent	\$ 2,489,581	\$ 2,600,217	\$ (110,636)
Non-current Assets			
Capital Assets -			
Net of Accumulated Depreciation	2,134,395	2,079,778	54,617
Total Assets	<u>\$ 4,623,976</u>	<u>\$ 4,679,995</u>	<u>\$ (56,019)</u>
 Liabilities and Net Assets			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 3,826	\$ 3,140	\$ 686
Retainage Payable		6,406	(6,406)
Current Portion - Long-Term Debt	24,300	24,300	-
Deferred Revenue	25,278	50,371	(25,093)
Total Current Liabilities	53,404	84,217	(30,813)
Non-Current Liabilities			
Contract Payable	503,479	538,297	(34,818)
Total Liabilities	<u>556,883</u>	<u>622,514</u>	<u>(65,631)</u>
Net Assets			
Invested in Capital Assets, Net of			
Related Debt	1,606,616	1,517,181	89,435
Unrestricted	2,460,477	2,540,300	(79,823)
Total Net Assets	<u>\$ 4,067,093</u>	<u>\$ 4,057,481</u>	<u>\$ 9,612</u>

Long-Term Liabilities

The District has only two major long-term liabilities.

The District was organized in 1935 to represent Provo City's interests in the Deer Creek Dam and to assume the construction liability. The District signed a construction contract with Provo River Water Users Association. The payment on this contract has been completed. However, a supplemental contract was also signed to build the Deer Creek power plant. The District still has an obligation (noted above) on this contract and makes an annual payment on this obligation. However, the District's actual payment is reduced somewhat by earnings from the sale of the power.

The Metropolitan Water District (MWD) in 1994 signed an agreement with the Central Utah Water Conservancy District (CUWCD) for an annual allotment of 1,800 acre-feet of water in Jordanelle Dam. The agreement includes an annual payment of an estimated \$369,500 annually for 50 years. CUWCD however agreed to make the above payment during the years that MWD did not call for the water. To date the MWD has not used any of the water in this agreement and thus has made no payments to CUWCD.

Currently the District has no other long-term liabilities and foresees no future revenue requirements for which the District would need to issue bonds or impose its taxing authority.

Statement of Revenues, Expenses and Changes in Net Assets

	2004-2005	2003-2004	Change
Operating Revenue			
Water Sales and Rental	\$ 146,400	\$ 130,614	\$ 15,786
Operating Expenses			
Water Assessments	153,520	145,685	7,835
Wages and Taxes	31,714	31,526	188
Professional Fees	2,650	2,400	250
Insurance, Office and Other	6,407	7,513	(1,106)
Depreciation	2,136	2,818	(682)
Rent	1,800	1,800	-
Total Operating Expenses	198,227	191,742	6,485
Operating Income (Loss)	(51,827)	(61,128)	9,301
Non-operating Revenue (Expenses)			
Interest	61,439	40,984	20,455
Donated Assets	-	(997,326)	997,326
Total Non-operating Revenue (Expense)	61,439	(956,342)	1,017,781
Net Income (Loss)	9,612	(1,017,470)	1,027,082
Net Assets - Beginning of Year	4,057,481	5,074,951	(1,017,470)
Net Assets - End of Year	\$ 4,067,093	\$ 4,057,481	\$ 9,612

With the shortfall in revenues noted above, a decision regarding expenditures was required. The Board of Directors, through budget approvals, opted to offset the shortfall from the District's net assets. The level of expenditures thus, remained nearly constant. With the return to 100% in the Provo River, a normal expenditure level is reflected in the 2005-2006 budget.

As a result of the decision to continue to participate in Provo City capitol projects, the District's net assets will continue to deteriorate.

Financial High Lights

The District, last year, had only one capital project. It was the new Canyon Road Well located behind fire station #2 at 2737 Canyon Road in Provo.

Provo City has obtained 11 drilling permits from the State Engineer. The District agreed to help drill and equip one of those permits. The Canyon Road well was started in October 2004, and at this writing is in the drilling stage.

The District and the City have corresponding boundaries and thus serve the same population. The City operates the distribution system for the above population and the District board of directors feels that the district should continue to participate with the City in the development of new water sources instead of independent development by the District.

BASIC FINANCIAL STATEMENTS

METROPOLITAN WATER DISTRICT OF PROVO

STATEMENT OF NET ASSETS

JUNE 30, 2005

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 2,489,581
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Non-Current Assets

Capital Assets

Furniture and Equipment	\$ 9,128
Building	6,285
Wells	38,115
Water Stock Rights	2,046,880
Construction in Progress	56,753
Less: Accumulated Depreciation	(22,766)
Total Non-Current Assets	<u>2,134,395</u>

Total Assets	<u>\$ 4,623,976</u>
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LIABILITIES

Current Liabilities

Accounts Payable	\$ 3,826
Current Portion - Long-Term Debt	24,300
Deferred Revenue	<u>25,278</u>
Total Current Liabilities	\$ 53,404

Non-Current Liabilities

Contract Payable Less Current Portion	<u>503,479</u>
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Total Liabilities	<u>\$ 556,883</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	1,606,616
Unrestricted	<u>2,460,477</u>
Total Net Assets	<u>\$ 4,067,093</u>

See accompanying notes.

METROPOLITAN WATER DISTRICT OF PROVO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005

Operating Revenue		
Water Sales and Rental		\$146,400
Operating Expenses		
Water Assessments	\$ 153,520	
Wages and Taxes	31,714	
Professional Fees	2,650	
Insurance, Office and Other	6,407	
Depreciation	2,136	
Rent	1,800	
Total Operating Expenses		<u>198,227</u>
Operating Loss		<u>(51,827)</u>
Non-Operating Revenue (Expenses)		
Interest		<u>61,439</u>
Net Income		9,612
Net Assets - Beginning of Year		<u>4,057,481</u>
Net Assets - End of Year		<u><u>\$4,067,093</u></u>

See accompanying notes.

METROPOLITAN WATER DISTRICT OF PROVO

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2005

Cash Flows from Operating Activities:

Water Sales and Rental	\$ 121,307	
Payments to Employees	(29,460)	
Payments for Payroll Taxes	(2,279)	
Payments to Vendors	<u>(170,073)</u>	
Total		\$ (80,505)

Cash Flows from Non-Capital and Related Financing Activities 0

Cash Flows from Capital and Related Financing Activities

Decrease in Debt	(34,818)	
Additions to Water Improvements and Equipment	<u>(56,753)</u>	
Total		(91,571)

Cash Flows from Investing Activities

Interest Income	<u>61,439</u>	
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Net Decrease in Cash and Cash Equivalents (110,637)

Cash and Cash Equivalents - Beginning 2,600,218

Cash and Cash Equivalents - Ending \$2,489,581

Reconciliation of Operating Income to Cash Flows from Operating Activities:

Cash Flows from Operating Activities

Net Operating Loss	\$ (51,827)	
Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used):		
Depreciation	2,136	
Decrease in Deferred Revenue	(25,093)	
Decrease in Payables	<u>(5,721)</u>	
Net Cash Used in Operating Activities	<u><u>\$ (80,505)</u></u>	

Supplementary Information:

There are no cash payments for interest or income taxes during the year.

See accompanying notes.

METROPOLITAN WATER DISTRICT OF PROVO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metropolitan Water District of Provo was formed as a special district in 1936 to locate, develop and protect water resources. All of the services provided by the District, the activities and funds that are financially accountable to the District as defined by GASB Statement 14 and 39, are included in the financial statements.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles as applied to government units. The more significant accounting policies are as follows:

Fund Accounting

The District uses only one fund to account for its operations. The proprietary fund type (enterprise fund) is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

Metropolitan Water District of Provo maintains its books and financial statements in conformity with U.S. generally accepted accounting principles as applicable to governmental units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District is a proprietary fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized where earned and expenditures are recognized when incurred.

The District distinguishes operating revenues and expenses from non-operating items by whether or not transactions are in connection with the District's purpose of locating, developing, and protecting water resources.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

METROPOLITAN WATER DISTRICT OF PROVO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 1 – SUMMARY *(Continued)*

Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

Investment in Stock, Water Stock, and Well

The District owns 8,000 shares (8%) of Provo River Water Users Association stock. The District records this investment, the water stock and well at cost.

Cash Equivalents

Cash and cash equivalents are defined as those monies available for use on demand or within 3 months.

Capital Assets

Purchased property and equipment are recorded at cost. Assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Equipment	3-5 years
Wells	20 years

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash resources consist of checking and savings deposited with the State Treasurer. The District follows the requirements of the Utah Money Management Act in handling its depository and temporary investment transactions. The law requires the depositing of District funds in a "qualified depository" defined as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The District has one bank account and investments with the Utah State Treasurer. The District's carrying amount of bank deposits at June 30, 2005 is \$14,352 and the bank balance is \$14,352, of which all is covered by Federal depository insurance. No deposits are collateralized, nor is it required by state statute.

METROPOLITAN WATER DISTRICT OF PROVO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Cash and cash equivalents at June 30, 2005 consist of:	<u>Carrying</u> <u>Value</u>	<u>Fair</u> <u>Value</u>
Cash in Bank	\$ 14,352	\$ 14,352
Utah State Treasurer's Pool	<u>2,475,230</u>	<u>2,475,230</u>
Total	<u>\$2,489,582</u>	<u>\$2,489,582</u>

NOTE 3 - FIXED ASSETS

	<u>Balance</u> <u>6/30/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/05</u>
Business-type activities				
Capital assets not being depreciated				
Water stock	\$ 2,046,880		-	\$ 2,046,880
Construction in progress	-	56,753	-	56,753
Total capital assets not being depreciated	<u>2,046,880</u>	<u>56,753</u>	<u>-</u>	<u>2,103,633</u>
Capital assets being depreciated				
Buildings	6,285	-	-	6,285
Wells	38,115	-	-	38,115
Equipment	9,128	-	-	9,128
Total capital assets being depreciated	<u>53,528</u>	<u>-</u>	<u>-</u>	<u>53,528</u>
Less accumulated depreciation for:				
Buildings	1,570	157	-	1,727
Wells	10,005	1,906	-	11,911
Equipment	9,055	73	-	9,128
Total accumulated depreciation	<u>20,630</u>	<u>2,136</u>	<u>-</u>	<u>22,766</u>
Total capital assets being depreciated - net	<u>32,898</u>	<u>(2,136)</u>	<u>-</u>	<u>30,762</u>
Business-type activities capital assets - net	<u>\$ 2,079,778</u>	<u>\$ 54,617</u>	<u>\$ -</u>	<u>\$ 2,134,395</u>

NOTE 4 - RETIREMENT PLAN

The District has no employees covered by a retirement plan.

METROPOLITAN WATER DISTRICT OF PROVO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 5 - WATER STOCK AND WELL

The District owns a well and shares in the following water companies:

	<u>Cost</u>
Provo River Water Users Association	\$1,913,297
Other Water Shares	27,373
Thorn Well and Related Water Rights	<u>106,210</u>
Total	<u>\$2,046,880</u>

NOTE 6 - LONG-TERM DEBT

The following is a summary of changes in long-term debt:

	<u>Balance</u> <u>7/1/04</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/05</u>	<u>Due within</u> <u>One Year</u>
Due to Provo River Water Users Association	<u>\$562,597</u>	<u>(\$34,818)</u>	<u>\$527,779</u>	<u>\$24,300</u>

This contract is payable to Provo River Water Users Association for the District's share of the Deer Creek Dam construction project and is interest free and due in yearly installments until the year 2028. The payment schedule is as follows:

2005	\$ 24,300
2006	22,800
2007	22,800
2008	22,800
2009	22,800
2010-2014	114,000
2015-2019	114,000
2020-2024	114,000
2025-2028	<u>70,279</u>
Total	<u>\$527,779</u>

NOTE 8 - DEFERRED REVENUE, CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCY

The deferred revenue is from a local government. Most of the District's revenues are derived from this entity. The deferred revenue is:

Provo City	<u>\$25,278</u>
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METROPOLITAN WATER DISTRICT OF PROVO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the District to retain the risk of any loss. The District, however, has purchased a workers' compensation policy. No claims have been reported as of year end. No claims have been paid in the current or prior three years.

NOTE 10 - COMMITMENTS

In 1994 Metropolitan Water District of Provo signed an agreement with Central Utah Water Conservancy District for a perpetual allotment of 1800 acre-feet of water. Payments are estimated at \$369,500 per year for 50 years. The payments are for the annual use of the water and are not considered payments on a long-term debt. The District has the discretion each year to take the water or make its allotment available to Central Utah Water Conservancy District. If the water is made available to Central Utah Water Conservancy District, no payment is required in that year. As of now, no water has been used and no payments have been made under this contract.

The District has an annual agreement to rent office space for \$150 per month from Provo City. For the current year, rent expense was \$1,800.

At the end of the year, the District had started a new well on Canyon Road. The total estimated cost is \$250,000. The balance of construction costs at year end was \$56,753.

SUPPLEMENTARY REPORTS

GILBERT & STEWART
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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Metropolitan Water District of Provo
Provo, UT 84601

June 26, 2005

We have audited the financial statements of the business-type activities of Metropolitan Water District of Provo as of and for the year ended June 30, 2005, which collectively comprise Metropolitan Water District of Provo's basic financial statements and have issued our report thereon dated June 26, 2005. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

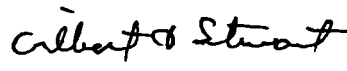
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metropolitan Water District of Provo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Metropolitan Water District of Provo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.


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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH APPLICABLE
UTAH STATE LAWS AND REGULATIONS**

July 26, 2005

Metropolitan Water District of Provo
Provo, UT 84601

We have audited the basic financial statements of Metropolitan Water District of Provo for the year ended June 30, 2005, and have issued our report thereon dated July 26, 2005. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements

Budgetary Compliance
Special Districts
Other General Issues

The District did not receive any major or nonmajor State grants during the year ended June 30, 2005.


The management of the Metropolitan Water District of Provo is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Metropolitan Water District of Provo complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2005.

This report is intended solely for the information and use of management and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

METROPOLITAN WATER DISTRICT OF PROVO

MANAGEMENT LETTER

GILBERT & STEWART
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PROVO, UTAH 84601
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Chairman and Executive Council
Metropolitan Water District of Provo
Provo, UT

July 26, 2005

We have completed our audit of the basic purpose financial statements of the Metropolitan Water District of Provo for the year ended June 30, 2005 and have issued our report thereon dated July 26, 2005. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. The financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on those statements based on our audit.

This letter is issued as required by Statement on Auditing Standards No. 61, "Communication with Audit Committees", which requires auditors to determine that certain matters related to the conduct of an audit are communicated to those who have responsibility for the oversight of the financial reporting process.

Significant Accounting Policies - The accounting policies used by the District for the year ended June 30, 2005 were consistent with those used in prior years.

Management's Judgments and Accounting Estimates - Management estimates the remaining useful life of property and equipment. Our tests on these estimates consisted of comparisons with prior years and discussions relating to future benefits to be derived from the related assets. Management's estimates were considered by us to be materially correct.

Significant Audit Adjustments - Several audit adjustments were made. We also made several closing and reclassifying entries to the District's books. These entries included usual annual closing entries. We will provide the District with these entries and any other assistance needed to adjust the District's account balances.

Other Information in Documents Containing Audited Financial Statements - None

Disagreements with Management - None

Consultation with Other Accountants - None

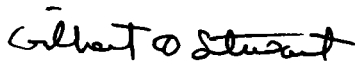
Major Issues Discussed Prior to Engagement - None

Difficulties Encountered in Performing the Audit - None

Utah State Legal Compliance Findings - Current Year - None

We wish to express our appreciation to the District personnel for the friendly and enthusiastic help extended to us during the course of the examination.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gilbert O. Stewart".

GILBERT & STEWART
Certified Public Accountants

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH APPLICABLE
UTAH STATE LAWS AND REGULATIONS**

July 26, 2005

Metropolitan Water District of Provo
Provo, UT 84601

We have audited the accompanying financial statements of the business-type activities of Metropolitan Water District of Provo for the year ended June 30, 2005, and have issued our report thereon dated July 26, 2005. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements

Budgetary Compliance
Special Districts
Other General Issues

The District did not receive any major or nonmajor State grants during the year ended June 30, 2005.

The management of the Metropolitan Water District of Provo is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Metropolitan Water District of Provo complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2005.

This report is intended solely for the information and use of management and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants